

Bond Market Insight

Primary market rates steady

Comment on government bond placement

At the scheduled auction, the MoF satisfied nearly all demand, which was rejected last week. Out of the UAH1.30bn of rejected bids last week, yesterday's demand for local currency bonds was only UAH5m lower. Also, there were a larger number of bids, some of which were rejected, similar to FX-denominated bonds, as the issuer rejected one bid at the highest level interest rate.

As expected, demand for local currency bonds was concentrated at around 15.00%, and was ranged from 14.95% to 16.00%. But the MoF rejected only two bids that totaled UAH0.10bn which were submitted at interest rates above last week's cut-off rate, 15.00%. The MoF satisfied UAH1.20bn of demand and set the weighted average interest rate at 14.99%.

Demand for FX-denominated bonds was mostly flat, at 5.40%, the cut-off rate similar to the previous two auctions. Only one bid at 5.80% which amounted to only US\$5m and was not included in the accepted pool of bids. Finally, accepted demand totaled US\$170.31m.

At the result of the auction, the MoF should receive UAH5.72bn of budget proceeds, including US\$170.34m in FX (UAH4.53bn at current exchange rate).

Despite the low liquidity and the increase in interest rates for 3-month CDs issued by the NBU, the primary market of local currency bonds remains stable. Moreover, there were fewer bids at interest rates that are significantly higher than the cut-off rate. While last week the MoF had to reject the main part of demand in five bids, yesterday was far different as most bids were accepted. As bonds' cut-off rates remained steady, we do not anticipate any volatility at the primary market.

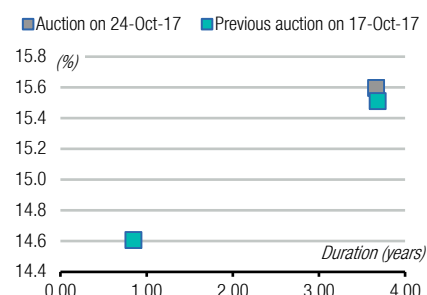
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Pro-ceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Out-standing (m) ⁴
UA4000199210	14.91	SA	12-Oct-22	1,195,300	1,000.06	1,195.37	1,195.30	15.60	1,582.37
Total				1,195,300		1,195.37	1,195.30		1,582.37
UA4000199244	5.40	SA	23-Oct-19	170,314	1,000.15	4,546.36	4,545.68	5.48	4,545.68
Total				170,314		4,546.36	4,545.68		4,545.68

Note: [1] payment frequency abbreviations: M - monthly, Q - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day last price of USD/UAH exchange rate; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

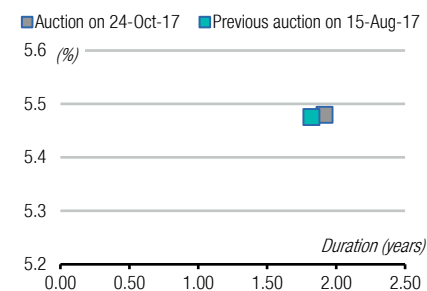
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



Source: Ministry of Finance of Ukraine, ICU.

USD-denominated domestic gov't bonds: yield curve in past two auctions

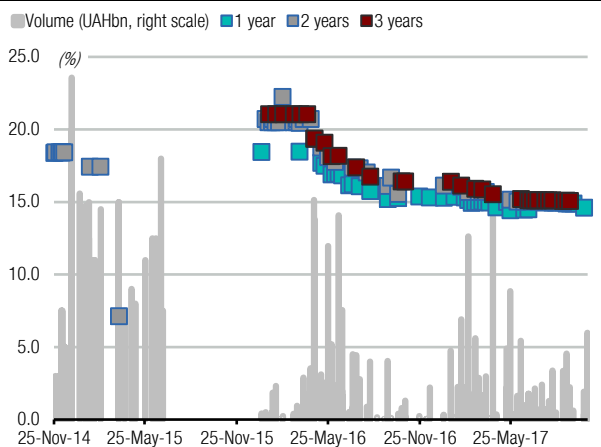


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

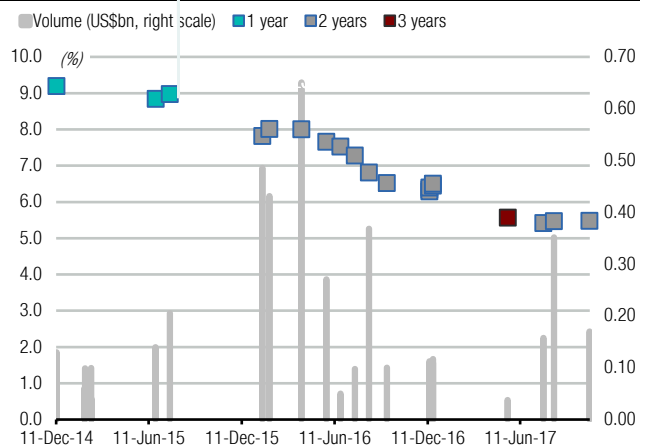
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

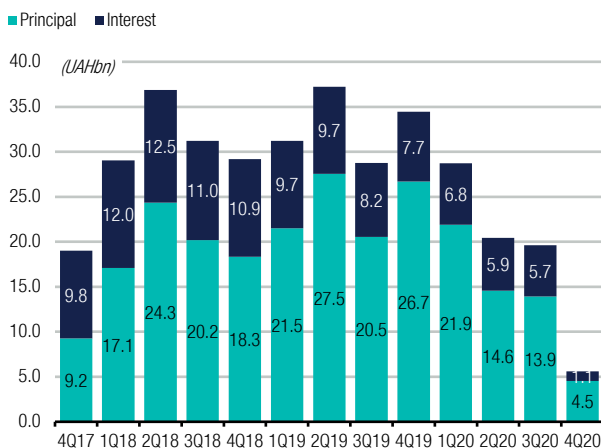
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

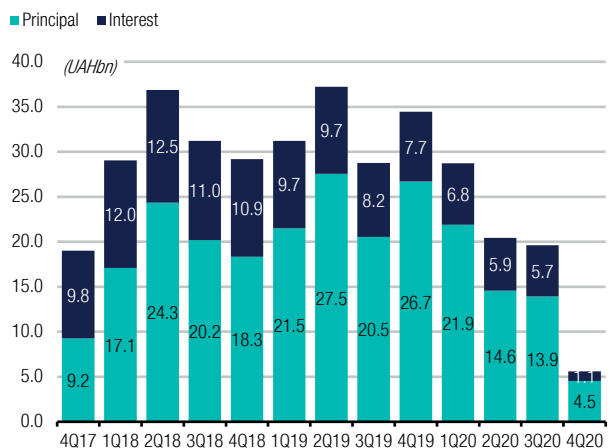
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

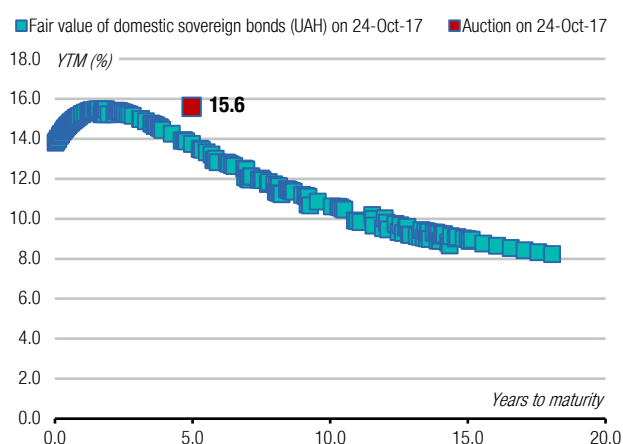
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

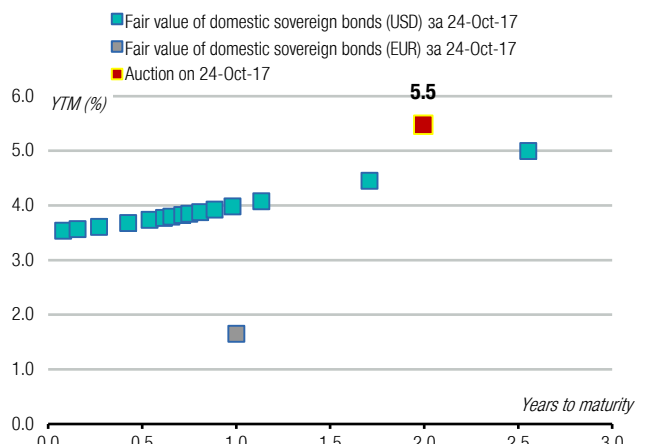
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

UAH-denominated domestic government bonds



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

USD- and EUR-denominated domestic government bonds



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

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